National Tea Co. 1970 Annual Report

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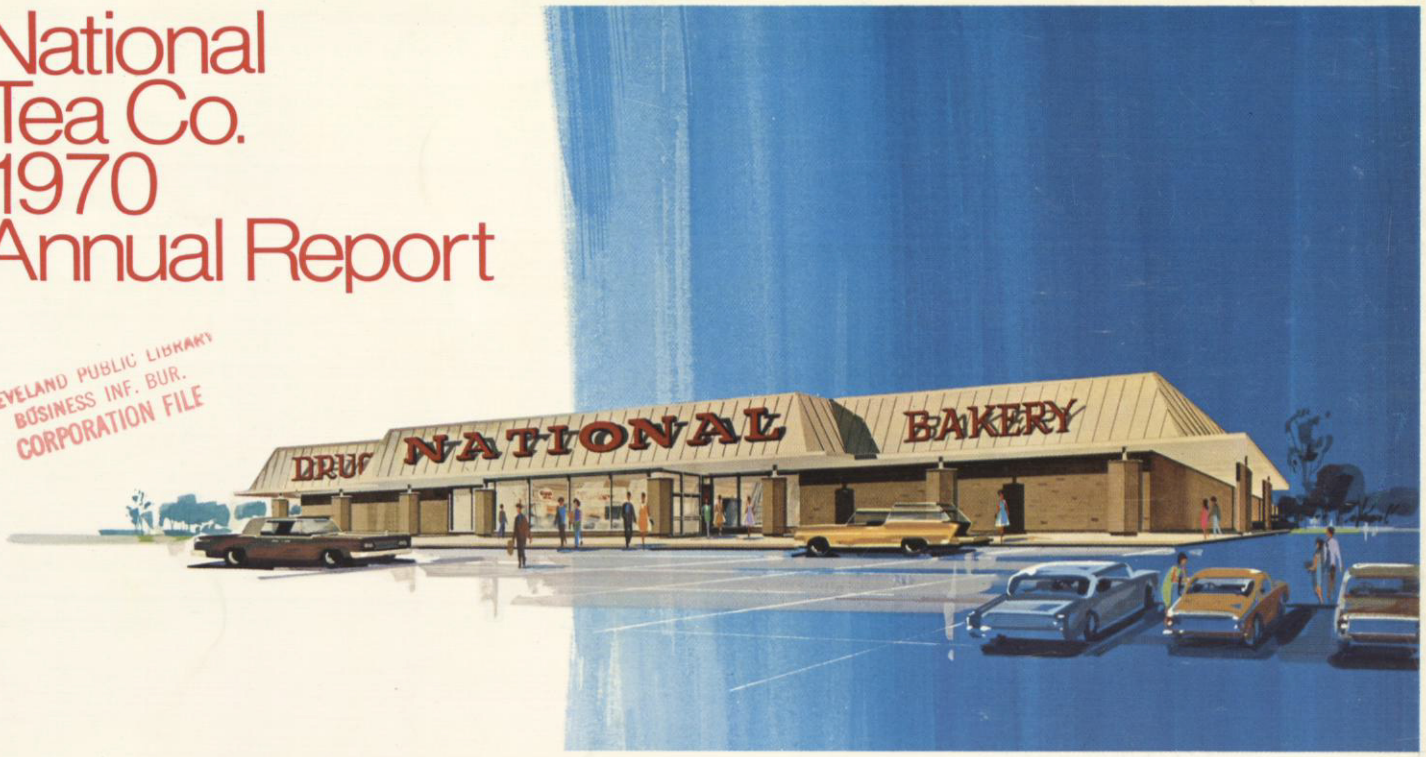

GROWTH BY PLEASING CUSTOMERS IN THE SEVENTIES

Serving the customer with courtesy & friendliness— the National Tea Co. way

About the Cover:

Profile of the Seventies Customer. Tom and Gail Burke personify the families National serves by the millions every week in 20 states. With three small children, Kristin, 3, Kara, 2, and Tim, 9 months, Mrs. Burke relates that she shops at National because of its fine meats, and the excellent overall service she gets. With three small children, getting her prescriptions filled at the in-store Kare Pharmacy while she grocery shops, is an important time-saver.

Stores For the Seventies. (Top) The high fashion, New Orleans style 1970 Generation of National Food Stores have boosted sales wherever they have been built. Now the stores are being further refined, and engineered around modular concepts to streamline construction and be still more efficient in the next 10 years.

Smiles are a National Language. Smiling, warm and friendly store personnel is not only a traditional company objective, it's a universal language customers understand—and appreciate. Families shop where they know they are genuinely welcome. (Top, left to right) Checker Anita Fox's smile is as sweet as the flower on her shoulder at a store grand opening. Stewart Warwick, a 12-year veteran with National Tea, is Store Manager of one of the new 1970 Generation stores and he knows his job is built around serving his customers well. Linda Jones works in a Kare Drug department in another new National and she's proud of her ability to counsel and guide customers in their beauty care purchases. Produce Manager Ray Gross, a happy personality at National for 14 years, loves kids as much as he likes to run a stand-out produce department. Checker Carolyn Bailey, a part-timer working after school, is as friendly as long-time employees.

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Financial Highlights

FOR THE FISCAL YEAR ENDED:	March 28, 1970	March 29, 1969	December 30, 1967	December 31, 1966	January 1, 1966
Sales	**$1,512,282,211**	$1,192,627,535	$1,147,220,942	$1,190,494,686	$1,161,948,193
Income before Federal income taxes	**$ 19,383,804**	$ 14,010,880	$ 15,966,225	$ 18,807,775	$ 19,891,190
Federal income taxes	**8,711,000**	6,382,000	6,684,000	7,946,000	8,575,000
Extraordinary items, net of taxes	**—**	(435,000)	1,491,515	—	—
Minority interest	**804,383**	—	—	—	—
Net income	**$ 9,868,421**	$ 7,193,880	$ 10,773,740	$ 10,861,775	$ 11,316,190
Percent to sales	**.65%**	.60%	.94%	.91%	.97%
Per share*					
Before extraordinary items	**$ 1.30**	$ .97	$ 1.18	$ 1.30	$ 1.33
Extraordinary items	**—**	(.05)	.19	—	—
Net income	**1.30**	.92	1.37	1.30	1.33
Dividends per share	**.80**	.80	.80	.80	.80
AT YEAR END:					
Working capital	**$ 69,773,035**	$ 72,967,585	$ 59,783,321	$ 57,676,864	$ 63,031,103
Property and equipment	**116,017,749**	111,443,241	86,106,124	89,383,710	93,481,743
Long-term debt	**47,533,008**	52,579,626	22,305,258	25,758,274	25,380,901
Shareholders' investment	**123,732,667**	119,931,200	122,415,374	117,889,000	126,659,444
Shares outstanding	**7,583,693**	7,583,693	7,847,156	7,845,056	8,631,976
Book value per share	**16.32**	15.81	15.60	15.03	14.67
Supermarkets in operation	**954**	800	852	865	941

*Based upon weighted average of shares outstanding.

President's Letter

To our Shareholders:

Entering the decade of the Seventies, National Tea Co. recorded the highest sales volume in its 71-year history.

For the fiscal year ended March 28, 1970, sales reached $1,512,282,211, a 26.8 per cent gain compared with last year's sales of $1,192,627,535, which was the previous record high.

Net income increased 37.2 per cent to $9,868,421, or $1.30 per share, compared with last year's earnings of $7,193,880, or 92¢ per share. The number of shares outstanding this year and last were substantially the same.

Both sales and earnings incorporate for the first year sales and earnings of Loblaw Inc., of Buffalo, New York, in which we purchased a 71.45 per cent interest on March 28, 1969.

Overall, these operating gains were achieved in spite of the unyielding pressure on our profitability brought about by the constantly rising cost of doing business, a direct result of the inflationary spiral. Costs have been rising faster than the rate of improvement in productivity and this critical economic factor continues to be of major concern to our management.

1970 Generation Stores Multiply

Perhaps the single biggest factor in our ability to increase sales and earnings in the face of this inflationary cycle is the positive influence of our 1970 Generation of National-Kare Family Centers. Launched three years ago, these high-fashion, New Orleans-styled supermarkets of tomorrow have been characterized as "the most beautiful supermarkets in America". They were engineered by our Store Design group to provide a new standard in our industry for shopping pleasure and convenience for the millions of families we serve in the 20 states where we operate 954 stores.

Such 1970 Generation stores are producing far greater volume than our earlier stores. They are engineered for lower cost operations, and to maximize the profit contribution of the general merchandise lines which are destined to become a much more important part of our selling strategy in the coming ten years.

Currently we have 84 New Orleans-styled supermarkets in operation. In addition to these stores we have in operation another 135 large stores, many having Kare Drug departments, which have different interior designs, but meet all of the requirements of the one-stop shopping concept. There are approximately 17 of the 1970 Generation stores in the process of being built and another group of 51 are on the drawing boards for introduction in the next two years.

National's Reliance on General Merchandising

We are no longer just in the food business. Our interest in soft goods lines, seasonal wearing apparel for the whole family, in products for the home, car, garden, recreation and leisure time, and our growing importance as a retailer of ethical pharmaceuticals—all contribute to a vastly changed atmosphere of merchandising. A special text and pictorial report on these far-reaching changes and their impact on our operations is detailed in the Operations Review starting on page 5.

Not only is our new store building program adhering to this advanced standard for our 1970 supermarkets, but our program for remodeling and enlargement has been adapted to the same modern architectural, engineering and design format. Over the past year we spent $21,523,364 in capital improvements of all kinds—new stores, remodelings, relocations, and general streamlining and heightening of our operating efficiency—all intended to increase our ability to generate profits and to strengthen and support an increased productivity in every facet of our business. The box score for the year tallies 34 new or re-located stores opened and 16 stores enlarged. We added 21 Kare Drug departments last year and now have 108 in operation. This closely approximates our goals for the year, despite the tight money market.

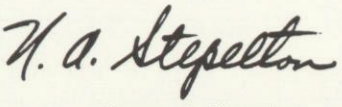
General merchandising is a growing part of our business, and is vital to our ability as a company to generate more earnings. Our near term objective is for general merchandise lines to be increased to reach 15 to 20 per cent of sales. Thus, the main thrust of our management planning is pointed in this direction.

Streamlining for Productivity and Profit

Behind-the-scenes, fundamental improvements are being made in our warehousing and merchandise distribution systems and in our extensive truck transportation facilities. The new Merchandise Distribution Center slated to open in Indianapolis late this summer will greatly improve the level of service to our stores and will provide a greater variety of merchandise for our customers. This is one example of the improvements and efficiencies which we are striving to install in all segments of our business.

That we have made this progress during the fiscal year is due in large measure to the excellent capabilities of the able men and women of National of whom we in management are extremely proud. To our 18,000 shareholders whose investment in our future provides us with the tools and resources to build and grow, we all wish to express our warm appreciation for your confidence and faith in our capacity to serve National's customers at a new level of excellence in the decade of the Seventies.

Sincerely,



Norman A. Stepelton
President

May 11, 1970

Long-Term Debt and Interest

Long-term debt, which was $52,579,626 as of the beginning of the year, was reduced $5,046,618 to $47,533,008 by year end. Payments on installment mortgage and chattel mortgage notes on buildings and equipment accounted for $566,618, and the balance of the reduction was due to the shift of $4,480,000 from long-term debt into current maturities, due within one year.

Interest on most of the items of outstanding long-term debt are at rates which were fixed at the time of borrowing. The interest rate on the bank term loan ($30,500,000, plus current maturity of $3,000,000 at March 28, 1970), however, varies with the prime rate. During the early part of this fiscal year this rate was 7¾% on the major portion of the loan, and 8% on the final installment of $12,000,000. On June 9, 1969, the respective rates were increased to 8¾% and 9%, and remained at this level until March 26, 1970. This represented a significantly higher interest cost than had been budgeted at the beginning of the year.

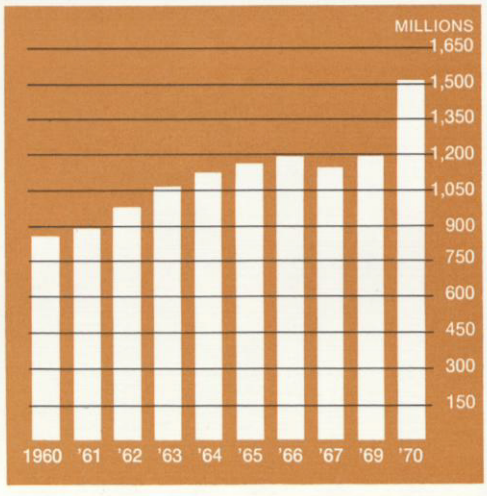
Effective March 26, 1970, the rates were reduced to 8¼% and 8½% on the respective portions of the bank loan, and it is anticipated that there will be further reductions during the ensuing fiscal year.

Capital Expenditures

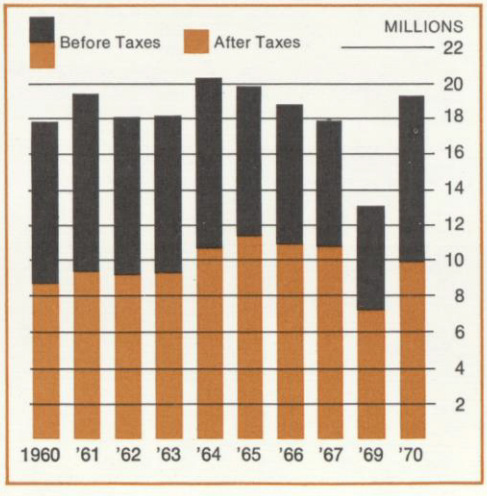
The addition of 34 new or relocated stores, 28 in "National Territory" and 6 in "Loblaw Territory," together with 16 substantial store enlargements and 20 store remodelings added up to the Company's largest capital improvement program in many years. A total of 840,000 sq. ft. of retail store area was added and the average size of the 1970 new or enlarged store was 22,100 sq. ft. This represented a substantial net increase in retail store area, as only 483,071 sq. ft. of retail store space was eliminated through the closing of 42 older, smaller stores.

Total cost of the 1970 internal growth program, including warehouse, plant and office replacements and additions as well as the store improvement program, was $21,523,364.

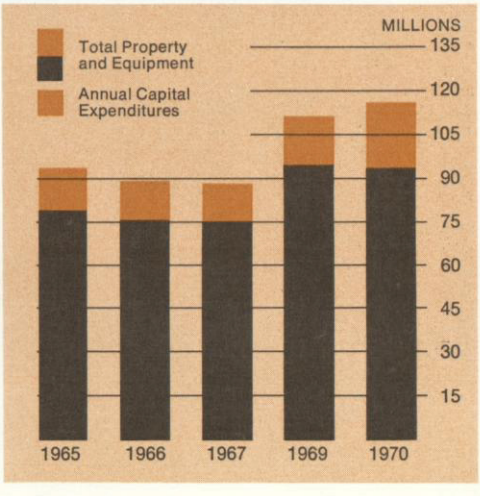
Sales Trends

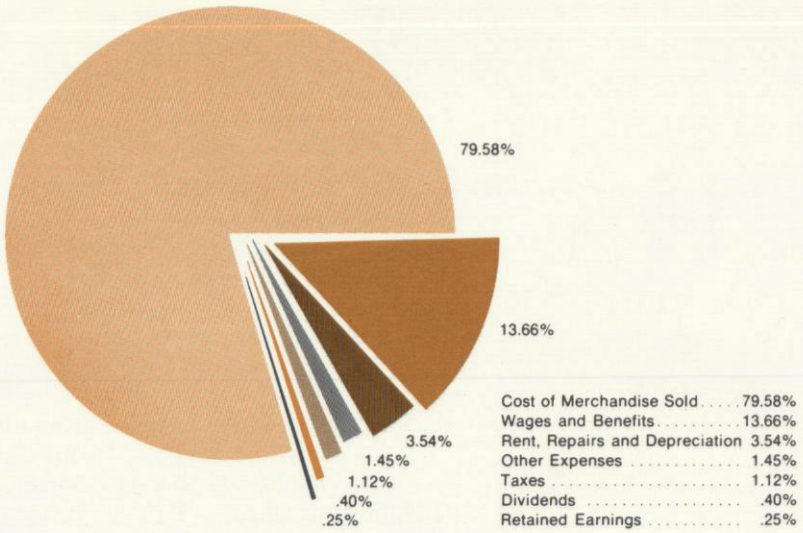


Net Earnings



Property and Equipment
and Annual Capital Expenditures





Distribution of the Sales Dollar

Average Annual Sales Per Store

One of the objectives of our store improvement program over the past several years has been to establish a new generation of larger National-Kare family shopping centers. Because of their size and the variety of merchandise which can be displayed and sold in these centers, the volume potential is much greater than in the conventional stores of the Sixties, and the productivity potential is proportionately improved.

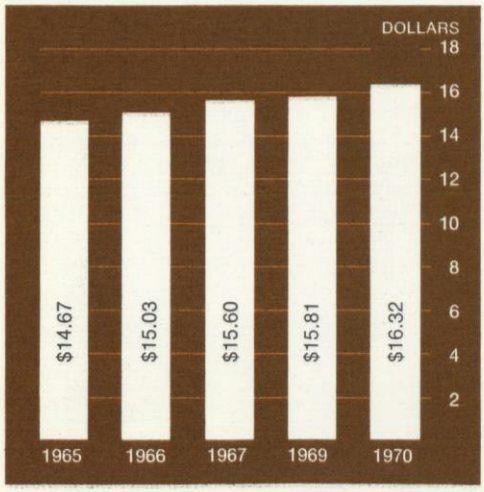
Our progress toward our goal of larger, more complete stores can be measured by the rising trend of average store sales and increasing store size. Whereas the Company had a store average of $1,214,157 in annual sales in 1965, this was increased to $1,524,536 in 1970. Over the same period, the size of the average store was increased from 13,749 sq. ft. to 15,533 sq. ft.

Federal Income Taxes

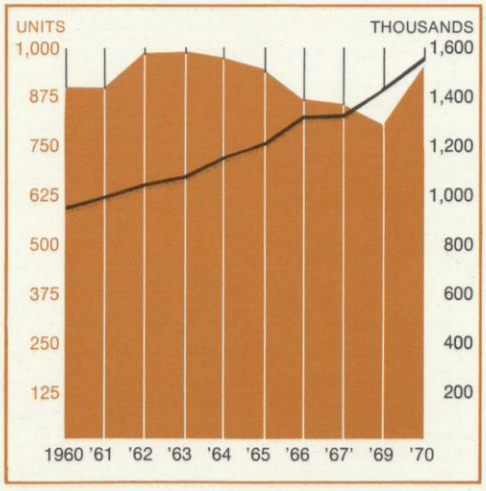
In comparison with the prior year, net income was favorably affected by the reduction of the Federal income tax surcharge from 10% to 5% as of December 31, 1969, which reduced the nominal tax rate from 52.8% to 52.2% for the fiscal year.

Although the investment credit was generally repealed as to equipment ordered after April 19, 1969, the Company had a substantial backlog of equipment on order as of that date to which the investment credit will apply. The reduction in consolidated Federal income taxes due to investment credit was $740,000 in 1970 as compared with $723,000 in 1969. It is anticipated that there will be a very substantial reduction in the amount of investment credit available for the fiscal year 1971.

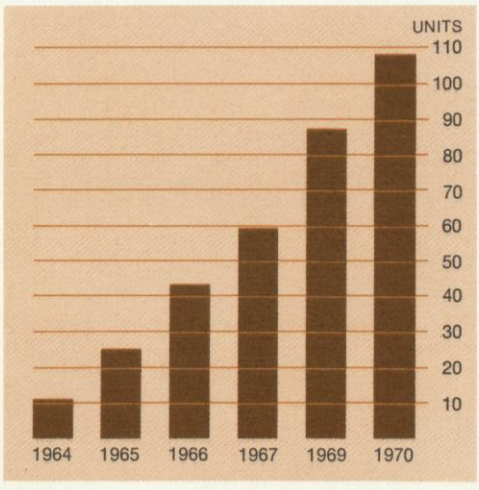
Book Value per Share



Number of Stores
Average Annual Sales per Store



Growth in number of
Kare Drug Departments



MERCHANDISING FOR THE 70's

National Tea Co. is expecting its greatest growth gains in the decade of the Seventies.

The 1970 Generation of National Food Stores, which were introduced in 1967, are now in greater numbers giving American families what they want in modern, in-step-with-the-times stores.

Erosion of the traditional lines of demarcation between drug stores, grocery stores, variety stores, junior department stores, and discount stores has forged a new standard of shopper service emerging from the heat of intense competition in merchandising. National's 1970 Generation of Supermarkets has been custom-designed to accommodate the changing shopping patterns of families.

Increases in leisure time, movement to the suburbs, emphasis on two and three car family mobility, outdoor living, freedom from home chores through countless household labor-saving devices—all have combined to dictate that a new style of supermarket is needed in the Seventies. Our management perceived these marketing road signs early in the Sixties and National's Store Planning and Design staff, working in consultation with architects and retail store design experts, has spent thousands of hours planning and testing innovative ideas in retailing to develop an outstanding store for the Seventies.

Over four years of research, experimentation, and analysis of shopper preferences went into the design of these new stores. High-styled, and in most cases incorporating a New Orleans decor, these supermarkets are primarily in the 26,000 to 32,000 sq. ft. range. We are now working with plans for stores up to 40,000 sq. ft. in size which will be operative in the mid-Seventies. Although the trend is definitely toward bigger stores designed for one-stop shopping convenience for American families, we have also designed a "mini-giant" store of 20,000 sq. ft. incorporating many of the large store features. These will be built in those areas where the larger stores are not feasible, such as heavily populated urban areas where large parcels of land are not available.

To make our stores as appealing as the designed interiors women love to create for their own homes, we have used soft, warm color schemes, combined with the wrought iron charm of old New Orleans. Blended into the concept are technical innovations such as an entirely new prize-winning mercury vapor lighting system which makes the meats and produce and all items displayed even more inviting and psychologically more appealing.

Management's decision to evolve and create the 1970 Generation of National-Kare Family Centers may well be one of the most important decisions in the 70-year history of our Company.

In an age of spiraling inflation and generally rising costs of doing business, engineering our stores for efficiency and low cost operation is essential to our achievement of a satisfactory profit level.

Produce with Taste-Appeal. Fresh fruits and vegetables invitingly displayed for customer convenience are major drawing cards in the 1970 Generation, New Orleans-styled stores. These stores are engineered to eliminate congestion and to provide dramatic, impressive settings for the merchandise displays.

NATIONAL-KARE FAMILY CENTERS

As the size of National's supermarkets has grown and more lines of merchandise have been added to the expanding selling space, the traditional concept of a supermarket has given way to a new retailing plan—the National-Kare Family Center. The Family Centers have evolved out of intense study of consumer buying patterns in our 20-state operating area.

In the Thirties, Americans turned to supermarkets by the millions, not only for the economies achieved, but also because of the convenience of having a meat market combined with a fruit and vegetable store and with an old fashioned dry grocery store. In the Forties and Fifties, these stores grew larger and more retailing refinements were added. Housewares, hardware, notions, variety store merchandise and some soft goods lines made their appearance, as well as expanded lines of health and beauty aids.

In the decade just closed, in-store pharmacies were added, as were bakeries with on-premises fresh baking and delicatessen departments stocked with imported cheeses, sausages, and numerous ready-prepared foods. Many National stores featured fine wines, both domestic and imported spirits. Whole departments were assembled around imported foods from France, Germany, Italy, Spain, Israel, Switzerland and other world markets, catering to the more sophisticated tastes of our customers today.

Now, in the Seventies, the trend is toward heavy emphasis on seasonal clothing items for the whole family, electric appliances, a wider variety of beauty aids, gardening equipment, leisure and recreation supplies, and a myriad of new products for the home, car, backyard or hobbies.

In National's newest stores, the one-third of the selling space devoted to general merchandise has been completely re-oriented into the Family Center Plan. Now a modern family shopping once a week can buy nearly all of their normal home needs with a single trip to a National-Kare Family Center.

KARE DRUGS

Ten years ago National's drug store operations amounted to five leased drug departments. Recognizing that drug department merchandise is an important part of consumers' shopping needs, National, in the past decade, has steadily built up its drug operations. Last year the Company had 87 Kare Departments; by March, 1970, the number had increased to 108.

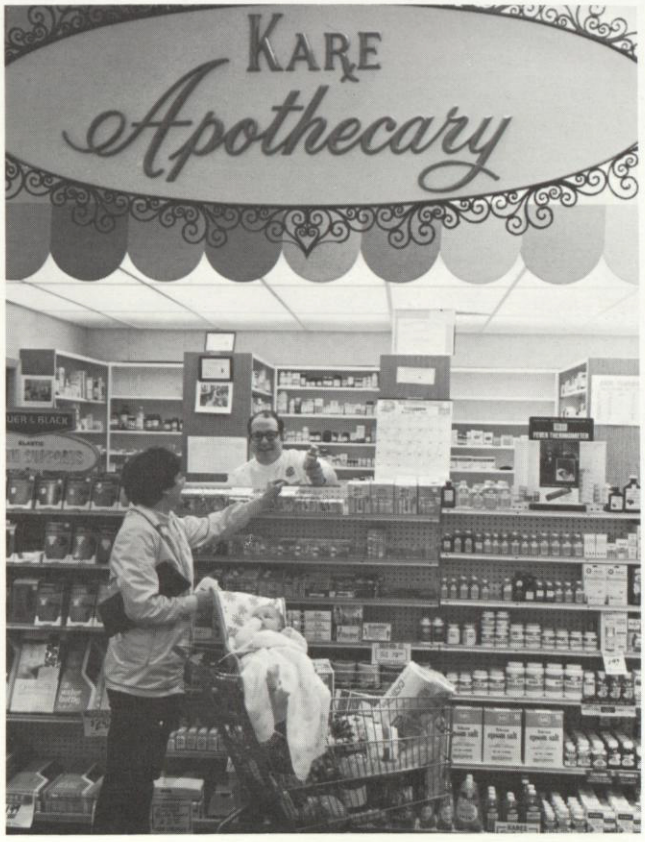
A logical outgrowth of the Company's historic health and beauty aid business is the ethical pharmaceutical department with a registered pharmacist in attendance. It is time-saving and convenient for a shopper to have prescriptions filled at the same Family Center while doing her family grocery shopping. At the same time our customer is assured of the highest professional standards in the preparation of her doctor's prescription.

While the number of Kare Departments has grown significantly, of even greater importance is the continuing growth in volume of the initial installations. Thus the expansion of Kare Drug Departments will continue in the next ten years at a rate probably exceeding the pace established in the Sixties.

Merchandising Revolution. In the National-Kare Family Centers the housewife shopper can stock up on most of her family's everyday needs in one trip, with all vital departments organized under one roof. While selecting groceries, she can buy socks for the kids, get her doctor's prescription filled at the druggist's, pick up oil for the car, obtain hardware for house repairs, get an electric hair dryer, or buy the latest records for the teen-age set.

No, this is not a Department Store. David Feffer, a Store Manager with 14 years National service, is a specialist in supermarketing who offers hundreds of items of wearing apparel to busy shoppers eager to save time with one-stop general merchandise shopping.

Professional Trust endears Kare Pharmacists like Shelley Dim to housewives who get their pediatrician's prescription filled while running down their week's grocery shopping list in a National-Kare Family Center.



GENERAL MERCHANDISE

Supermarkets today are especially sensitive to broad-scale consumer shopping preferences. Americans want value received in their purchases, and historically they have responded to appeals to thrift and retailers' efforts to help them stretch their budget for family necessities.

As supermarket merchandisers, National's management has always believed the Company must be vigorously competitive, but has never deviated from the Company's founding principle of selling only quality merchandise. This concept of value in merchandising has built the customer satisfaction that is our most valuable corporate asset. Extension of this concept to the general merchandise area has been warmly received by our customers.

Over the past ten years our general merchandise business volume also has grown significantly. We are planning for even greater increases in these broad product lines in the decade of the Seventies.

New, talented general merchandise specialists have been added to management to pace this evolutionary change, and additional seasoned talent is being recruited. Our National general merchandise operations are growing, and we intend to foster and aggressively stimulate expansion of this attractive market in the years ahead.

MODERN MANAGEMENT IN FOOD DISTRIBUTION—BY DESIGN

A management's capacity to earn profits in supermarketing is directly related to the degree of efficiency and effectiveness of the business techniques it employs. As wage levels and the general cost of doing business escalate, and inflation takes its yearly toll on our operations, we must constantly devise new ways to increase our productivity in order to generate adequate sales and profits from an already streamlined business organization.

One of the major areas of capital funds commitment is in our new stores. A 1970 Generation National-Kare Family Center of the 30,000 sq. ft. size, complete with inventory, represents an investment by the Company of $500,000, or more. Since their introduction in 1967, we have added or converted 84 such high-styled stores, representing a major investment.

To save money in our store construction program is to increase future profits. Therefore, our Store Design staff has further refined the design and construction specifications of our 1970 Generation National Family Center.

The essence of the present plan is a unique system of condensing the fundamental elements of the modern store into basic modules. These then can be combined to alter the store size and to provide variety within strict tolerances governed by rigid cost controls. Thus, building such stores over the next 10 years is expected to save 10 to 20 per cent on our present construction costs. There are three fundamental models in the new plan which permit seven varieties of stores. All such design and construction standards for our 11 Divisions are set by a centralized store planning department, making allowance for local marketing conditions and regional customer shopping preferences. Once constructed, continuing economies will be achieved through lower operating costs. We believe that this novel modular construction plan will result in one of the most efficient retail store building programs in the nation and will be a major element of our profit plan for the Seventies.

Systems Control Shelf Stocking. While high-speed computers at the Division regulate product flow to the stores from the Distribution Center, it still takes Assistant Store Managers like 10-year-man John Leidig to keep close tabs on the 15,000 products stocked in a 30,000 sq. ft. store.

MERCHANDISE DISTRIBUTION CENTERS

Our merchandise distribution centers are the controlling keys to faster merchandise delivery to the stores, acceleration of the turn-over of store inventory and elimination of merchandise out-of-stock situations, which are so objectionable to customers.

The new distribution center now under construction in Indianapolis, and slated for operation in the late summer of this year, will greatly improve our distribution in Indiana. This 410,000 sq. ft. center is built of pre-stressed concrete modules, and will feature a mechanized high-speed order-picking system. A 50 per cent growth factor is built into this distribution center to accommodate the anticipated growth in business volume of the coming decade.

We believe this Indianapolis center is the warehouse of tomorrow; it certainly will influence how we build or re-engineer distribution centers in the future.

Pace-Setter Distribution Center. This 410,000 sq. ft. mechanized Merchandise Distribution Center being completed for the Indianapolis Division will be one of the most advanced in the food industry when it goes into operation later this year.

CUSTOMER RELATIONS

Reflecting the personal warmth, friendliness and genuine welcome that we want our store personnel to show toward our customers is the focus of a continuing program of education, orientation, and training we conduct for our 27,000 in-store personnel.

We know that people like to shop where they are well treated. They like to be recognized. Above all, they respond to courteous, thoughtful, and considerate treatment from store personnel.

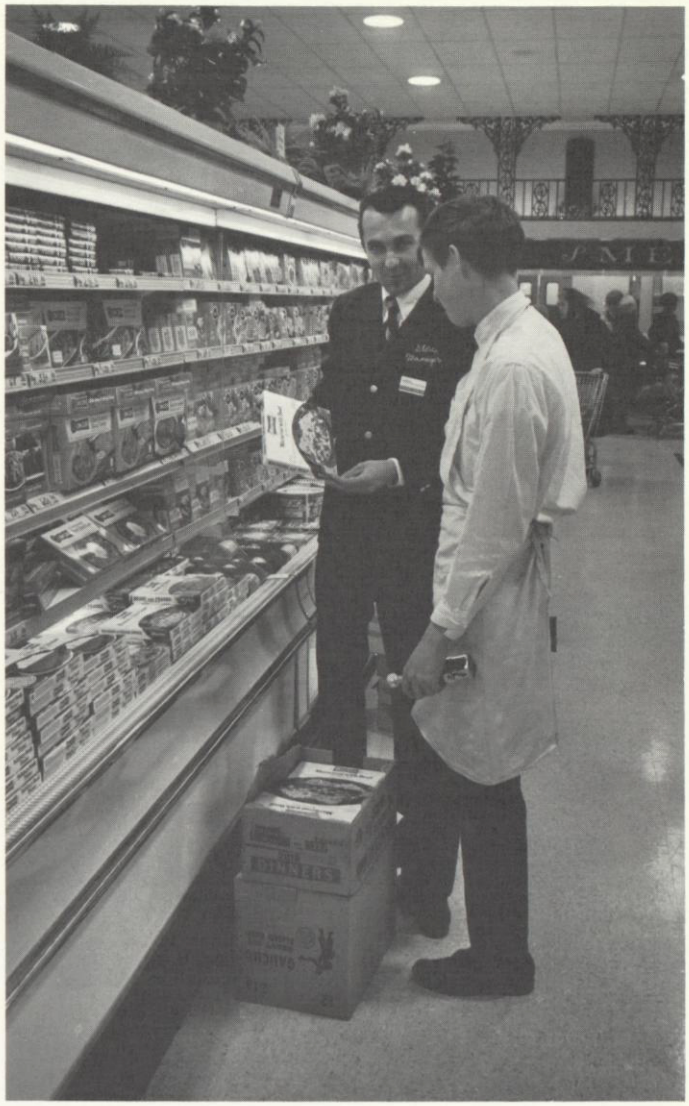
Every employee training program is built around these considerations. In the past several years we have created new Company-wide internal communications programs for our employees to foster a consistently friendly attitude. A new management communications program has also been created to exchange information about the trends in our business and to help upgrade employee talents and skills to make them "people pleasers".

Equipment in the stores, distribution centers, manufacturing plants, the transportation system, and all other machinery and equipment represents a net cash investment of over $115,000,000. All of this is meaningless without the conscientious and earnest effort of all our personnel to "give the lady what she wants" in our stores.

One major new way we have evolved to bring much of this into sharp focus for our employees—and to the benefit of our customers—is a new Employee Recognition Program, launched in 1969. Each of our 11 operating Divisions conducted competitions to determine the Division Store Manager and the Division District Manager of the Year, based on performance records. Each Division also had local competitions for the outstanding Head Checker, Produce Manager, Market Manager, and other key members of the store staff. All winners received bonus awards.

Then the winning Divisional Store Managers and District Managers and their wives were brought to Chicago, where the top Store Manager and District Manager of the Company were selected.

By highlighting these examples of noteworthy performance, we intend to reach still higher standards of excellence in human relationships throughout our Company.



Time Out for Training. National has a number of training programs to upgrade talents of employees, and a vital phase of instruction takes place on-the-job. Store Manager Stewart Warwick (above) gives merchandise display tips to Jerry Ebenroth, a Stock Clerk.

Experienced Advice Available. Though the whole concept of supermarketing is self-service, Market Managers like 11-year veteran Sandy Grano (lower left) and his staff are ready to aid shoppers with buying and preparation tips on special cuts of meat.

Green Thumb Department. In some of National's new stores, one-stop shopping includes an entire flower shop. Margaret Noble (below) finds kids as pleased about that as their moms.

NATIONAL AS A FOOD PROCESSOR

A little-recognized fact in our operations is our Company's role as a major food manufacturer and processor. At our Crosby street complex in Chicago we have manufacturing facilities that annually produce sales of nearly $15 million in Top Taste jams, jellies, peanut butter, coffee, olives, detergents, and numerous other products.

At Denver we operate our own feed lots and beef packing plant to provide the highest quality Colorado brand fresh meats for our Divisions. Our Denver plant also processes our own Top Taste and Hillside brands of bacon, sausages and smoked meats. At Fergus Falls, Minnesota, we process fresh pork and beef, and also produce smoked hams. These meat operations enable us to provide our own high quality products for sale in our stores at prices lower than comparable products.

National also operates its own bakeries in Chicago, Minneapolis, Milwaukee, St. Louis and Denver. Our objective, again, is freshness of product and adherence to our own high standards of quality.

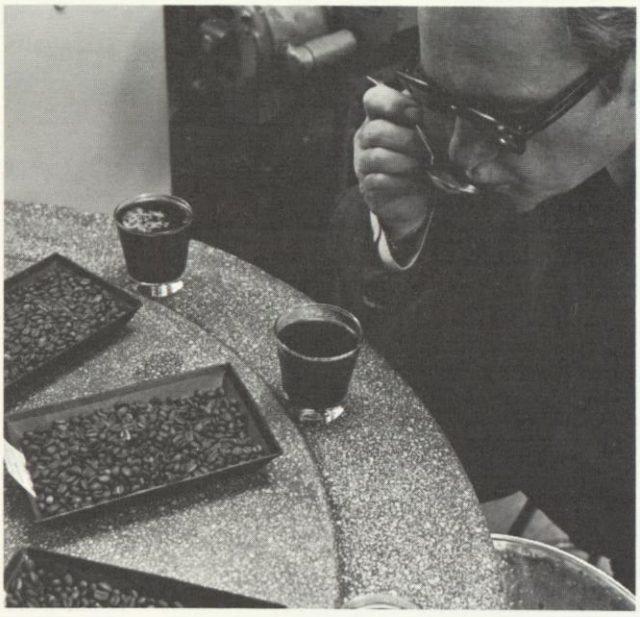
Still another vital customer attraction is the fresh fruit and vegetable department. National maintains its own system of local produce buying offices in the heart of the lush growing areas of California and Florida. In 1969, we opened a third permanent buying office in McAllen, Texas, to cover the Southwest and the new growing areas in Mexico. During the year, trained National produce buyers follow the crops to insure a steady supply of the finest produce obtainable.

QUALITY CONTROL LABORATORY

As a major food processor, National maintains a Quality Control Laboratory to apply the most modern techniques of food testing to insure purity, wholesomeness, and flavor in its products. A staff of food chemists and laboratory technicians conducts over 50,000 scientific tests a year on foods we manufacture. They also double check raw materials and maintain quality control standards on other products which our stores distribute.

Taste testing panels are also employed to maintain faith with the consumer that any product bought in our stores will be of the highest quality, purity, and reliability. Comparative testing is also undertaken in the laboratory to rate our private label foods against other popular products and to keep abreast of changing consumer preferences.

Lab Testing for Quality. Modern methods of food technology are used in 50,000 tests annually in the company's Quality Control Laboratory in Chicago. Lab Technician Ann Bringmann (below), with nearly 10 years company service, performs chemical tests on salad dressings.



Good Taste. As sophisticated as food production is today, it's good taste that keeps customers. Coffee Buyer George Kaspar (above), a third-generation coffee man with 25 years at National, taste-tests coffees from around the world before they are blended for famous Natco coffee.

National's own Brands. National Tea processes a wide variety of its own products, from peanut butter to detergents. Zola Semonis (above left), a 17-year employee, checks quality of soft drinks at our manufacturing plant in Chicago.

Loblaw Markets. Loblaw Inc., owned 71.45 percent by National, operates 160 stores in New York state, Pennsylvania, Ohio, and the Los Angeles area.

Meat Leads the Way. High quality meats from our own packing plants are our lead product in drawing and holding shoppers. John Conway (below), Meat Commissary Supervisor at our Chicago headquarters, a 25-year employee, inspects a beef shipment from the Denver Plant.

LOBLAW INC.

Loblaw is a famous name in the supermarket industry and National Tea Co.'s 71.45 per cent interest in this Buffalo, New York-headquartered chain of 160 U.S. supermarkets has substantially broadened our market. Now National has store operations in the East, spanning western New York and areas in Pennsylvania and Ohio not served by our Youngstown Division. Loblaw also gives us representation in the Los Angeles area for the first time.

Sales of Loblaw Inc. increased 11 per cent over last year while earnings increased more than nine per cent. The market coverage and penetration of Loblaw is a sound and logical addition to our National program for overall growth in the Seventies. Last year our associates in Loblaw opened six new stores, all in the 20,000 sq. ft. range or larger. They enlarged or remodeled another 17 stores and eliminated eight older stores.

As the nation's population continues to grow, the movement to the suburbs spreads, and urban areas are revitalized, the expansion of the scope of National's business operations through the addition of Loblaw Inc. constitutes yet another building block in our program of internal growth.

NATIONAL AND GEORGE WESTON LTD.

In the world of food the Weston name is known internationally, its origins dating back to 1882 when George Weston began baking bread for commercial sale. Today, the Weston group of companies is one of the largest food merchandising organizations in North America. George Weston Limited, through Loblaw Groceterias Co., Limited, owns 55.2 per cent of National Tea Co. stock, the initial purchase having been made in 1956. This investment in the Company places National's senior management in association with some of the most experienced supermarketing executives in the world. Loblaw pioneered the concept of supermarketing in Canada more than 50 years ago.

In the food retailing industry where new ideas and innovative thinking are the keys to growth and increased profitability, the Weston investment in National is a strong endorsement of the continued progress and expansion of National Tea Co. From the interaction of experience and progressive business judgment of National's operating executives and the Loblaw officers who jointly serve on National Tea Co.'s Board of Directors inevitably come the advances that have enabled the Company to grow and move ahead for the common benefit of all the Company's shareholders, employees, and customers.

Consolidated Balance Sheet

ASSETS	March 28, 1970	March 29, 1969
CURRENT ASSETS:		
Cash	**$ 12,864,835**	$ 14,536,230
Accounts receivable	**11,825,498**	9,167,380
Inventories, at lower of average cost or market	**116,886,048**	114,211,021
Prepaid expenses, etc.	**6,348,480**	6,019,831
Real estate in process of development and sale	**914,679**	1,639,216
Total current assets	**$148,839,540**	$145,573,678
OTHER ASSETS	**$ 1,135,465**	$ 3,225,851
PROPERTY AND EQUIPMENT, at cost:		
Land	**$ 4,542,754**	$ 4,622,955
Buildings	**15,533,856**	14,025,883
Fixtures and equipment	**162,336,896**	152,593,223
Reserves for depreciation	**(90,078,563)**	(82,795,577)
Leasehold improvements, less amortization	**22,994,385**	22,308,336
	$115,329,328	$110,754,820
Cost of subsidiaries at dates of acquisition in excess of book value, net	**688,421**	688,421
	$116,017,749	$111,443,241
	$265,992,754	$260,242,770

The accompanying notes are an

LIABILITIES	March 28, 1970	March 29, 1969
CURRENT LIABILITIES:		
Bank loans	**$ 3,000,000**	$ 2,300,000
Current maturities of long-term debt	**4,499,394**	3,439,887
Accounts payable	**55,615,227**	51,980,577
Accrued liabilities	**11,091,439**	9,332,944
Federal income taxes	**4,860,445**	5,552,685
Total current liabilities	**$ 79,066,505**	$ 72,606,093
LONG-TERM DEBT:		
8¼-8½% bank term loan, due semi-annually with final installment of $12,000,000 in 1976	**$ 30,500,000**	$ 33,500,000
5% sinking fund debentures, due 1977	**6,202,000**	6,720,000
4% promissory notes, due serially to 1973	**4,800,000**	5,800,000
Installment mortgage and chattel mortgage notes, maturing from 1972 to 1992	**3,718,008**	4,246,626
3½% subordinated debentures, due 1980	**2,313,000**	2,313,000
	$ 47,533,008	$ 52,579,626
DEFERRED FEDERAL INCOME TAXES	**$ 4,121,782**	$ 3,966,927
RESERVE FOR SELF-INSURANCE	**$ 850,000**	$ 850,000
MINORITY INTEREST	**$ 10,688,792**	$ 10,308,924
SHAREHOLDERS' INVESTMENT:		
Common shares, $4 par value, authorized 10,000,000 shares; issued 8,756,788 shares	**$ 35,027,152**	$ 35,027,152
Paid-in capital (no transactions during year)	**30,823,955**	30,823,955
Retained earnings	**76,605,151**	72,803,684
	$142,456,258	$138,654,791
Less cost of 1,173,095 common shares in treasury	**(18,723,591)**	(18,723,591)
	$123,732,667	$119,931,200
	$265,992,754	$260,242,770

integral part of this statement.

Statements of Consolidated Income and Retained Earnings

	Fifty-Two Weeks Ended	
	March 28, 1970 (Includes Loblaw Inc.)	**March 29, 1969**
INCOME:		
SALES	**$1,512,282,211**	$1,192,627,535
COSTS AND EXPENSES:		
Cost of sales, occupancy, buying and other operating expenses	**$1,291,730,973**	$1,027,196,662
Selling, general and administrative expenses	**196,854,165**	150,036,408
Interest expense, net	**3,879,269**	961,585
Profit sharing	**434,000**	422,000
Federal income taxes:		
Payable currently	**8,556,145**	6,796,000
Deferred	**154,855**	(414,000)
	$1,501,609,407	$1,184,998,655
Income before extraordinary items and minority interest	**$ 10,672,804**	$ 7,628,880
EXTRAORDINARY ITEMS, net of applicable Federal income taxes	**—**	(435,000)
MINORITY INTEREST	**(804,383)**	—
Net income	**$ 9,868,421**	$ 7,193,880
Per Common Share:		
Income before extraordinary items	**$ 1.30**	$ .97
Extraordinary items, net of tax	**—**	(.05)
Net income	**$ 1.30**	$ .92
RETAINED EARNINGS:		
BALANCE—Beginning of period	**$ 72,803,684**	$ 71,887,228
ADD (DEDUCT):		
Net income	**9,868,421**	7,193,880
Dividends ($.80 per share)	**(6,066,954)**	(6,277,424)
BALANCE—End of period	**$ 76,605,151**	$ 72,803,684

The accompanying notes are an integral part of these statements.

Statement of Consolidated Source and Disposition of Funds

	Fifty-Two Weeks Ended	
	March 28, 1970 (Includes Loblaw Inc.)	**March 29, 1969**
SOURCE OF FUNDS:		
Net income	**$ 9,868,421**	$ 7,193,880
Non-cash items deducted in arriving at net income:		
Depreciation and amortization	**16,948,856**	14,006,867
Deferred Federal income taxes	**154,855**	(1,025,328)
	$26,972,132	$20,175,419
Net proceeds of bank term loan	**—**	31,000,000
Working capital of Loblaw Inc. acquired	**—**	12,160,311
Other, net	**2,470,254**	(129,221)
Decrease (increase) in working capital	**3,194,550**	(15,409,094)
Total	**$32,636,936**	$47,797,415
DISPOSITION OF FUNDS:		
Cash dividends to shareholders	**$ 6,066,954**	$ 6,277,424
Additions to property and equipment, net	**21,523,364**	15,748,844
Maturities of long-term debt	**5,046,618**	3,233,772
Acquisition of 2,655,720 Loblaw Inc. common shares	**—**	22,530,000
Acquisition of treasury shares	**—**	7,375
Total	**$32,636,936**	$47,797,415

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

Acquisition of Loblaw Inc.

On March 28, 1969, the company purchased for $22,530,000 cash, 71.45% of the outstanding common stock of Loblaw Inc. from D.F.C. Inc., a wholly owned subsidiary of Loblaw Groceterias Co., Limited, which owns 55% of the outstanding common shares of National Tea Co. This transaction has been accounted for as a purchase, and the balance sheet of Loblaw Inc. has been included in the consolidated statements as of March 29, 1969 and March 28, 1970. 262,963 shares of National Tea Co. stock held by Loblaw Inc. have been treated in consolidation as treasury stock. Sales and earnings have been included only in the current year's income statement. Loblaw Inc. had sales of $248,326,429 and net income of $2,572,556 for the year ended March 29, 1969.

The net book value of the assets of Loblaw Inc. acquired exceeded the purchase price by $3,762,371. Of this amount, approximately $3,600,000 has been allocated to various assets to state them at fair market value as of the purchase date. The major allocations were to property and equipment, other assets and to excess cost of investment in subsidiary over book value of $1,842,089. The balance of the excess book value over the cost of National's investment has been offset against National's cost of investment in other subsidiaries in excess of underlying book value. The previous year's balance sheet has been restated to reflect this allocation.

Long-Term Debt

Under the bank term loan agreement interest rates vary with the prime rate, being ¼ % over prime on the portion to be repaid in semi-annual installments ($21,500,000) and ½ % over prime on the final installment ($12,000,000).

Aggregate maturities and sinking fund requirements under long-term loan agreements, exclusive of minor installments due on store building mortgage loans, are $4,499,394 in 1971, $4,892,764 in 1972, $5,302,123 in 1973, $7,626,268 in 1974 and $4,826,269 in 1975.

Dividend and Working Capital Restrictions

The bank term loan agreement contains certain restrictions among which are that the company will not pay cash dividends or reacquire its capital stock in an amount in excess of earnings subsequent to March 29, 1969, plus $3,500,000. In addition, the company must maintain consolidated working capital of not less than $55,000,000.

Under the terms of the indenture securing the 5% Sinking Fund Debentures, the company must maintain a current ratio of consolidated current assets to consolidated current liabilities, as defined in the indenture, of at least 2 to 1. As of March 28, 1970, the current ratio as defined was 2.0 to 1.

Depreciation

Depreciation is calculated using the straight line composite method for all assets except buildings and leasehold improvements at rates which will amortize the cost of the assets over their estimated useful lives. Buildings and leasehold improvements are depreciated at straight line rates over their estimated useful lives.

Deferred Federal Income Taxes

Deferred Federal income taxes arise principally from the use of accelerated depreciation methods for tax purposes.

Lease Commitments

At March 28, 1970, the company and its subsidiaries had 790 leases (some of which contain percentage rental clauses) expiring more than three years after that date with minimum annual rentals amounting to approximately $23,100,000 exclusive of taxes, insurance and maintenance payable by the lessee. Of this amount, approximately 55% applies to leases expiring within 10 years.

Auditors' Report

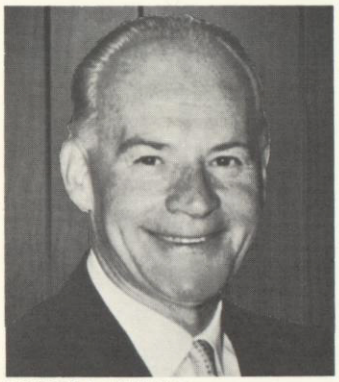
TO THE SHAREHOLDERS,
NATIONAL TEA CO.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation 55% owned by Loblaw Groceterias Co., Limited) AND SUBSIDIARIES as of March 29, 1969 and March 28, 1970, and the related statements of consolidated income, retained earnings and source and disposition of funds for the fifty-two week periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of Loblaw Inc. and Subsidiaries whose assets represent approximately 20% of the total consolidated assets were examined by other auditors and we were furnished with their reports on such consolidated financial statements.

In our opinion, based upon our examination and the reports of other auditors referred to above, the accompanying consolidated financial statements referred to above present fairly the financial position of National Tea Co. and Subsidiaries as of March 29, 1969 and March 28, 1970, and the results of their operations and the source and disposition of funds for the fifty-two week periods then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

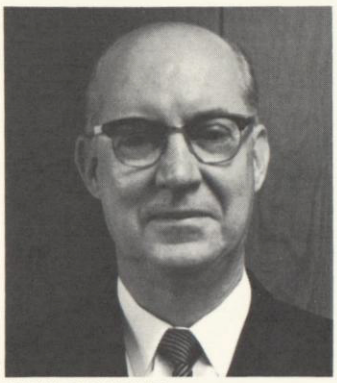
Chicago, Illinois,
May 8, 1970.

Arthur Andersen & Co.



GEORGE C. METCALF
Chairman of the Company

NORMAN A. STEPELTON
President and Chief Executive Officer



FRANK E. LINQUIST
Executive Vice President

J. E. LAUGHLIN
Vice President,
President, Kare Drugs, Inc.

Board of Directors

JOHN F. CUNEO
President, The Cuneo Press, Inc.

EDWARD L. JONES
Vice President and Secretary-Treasurer,
Loblaw Companies Limited

J. E. LAUGHLIN
Vice President,
President, Kare Drugs, Inc.

FRANK E. LINQUIST
Executive Vice President

RICHARD G. MEECH
Barrister and Solicitor

GEORGE C. METCALF
Chairman of the Company,
President, Loblaw Companies Limited

W. STRUAN ROBERTSON
Partner, Borden, Elliot, Kelly and Palmer, Attorneys

NORMAN A. STEPELTON
President and Chief Executive Officer

W. GARFIELD WESTON
Chairman of the Board
George Weston Limited

Secretary-Treasurer
ALLAN WILSON, JR.

Principal Corporate Officers

GEORGE C. METCALF
Chairman of the Company

NORMAN A. STEPELTON
President and Chief Executive Officer

FRANK E. LINQUIST
Executive Vice President

Vice Presidents

RODGERS N. BROWN
Division Manager

JAMES E. COLLOTON
Warehousing & Transportation

MARVIN E. CROSS
Produce Operations

ALLEN C. KING
Director of Sales

J. E. LAUGHLIN
General Merchandising & Drug Operations

WILLIAM J. LEDERER
General Counsel

WILLIAM H. LOWMAN
Meat Operations

NAT MALT
Regional Operations

H. L. MARTIN
Personnel

ELMER E. MILLER
Division Manager

LOWELL A. PETERS
Division Manager

J. P. QUIRK
Regional Operations

ROBERT E. SWAIN
Store Planning & Equipment

WILSON B. THOMAS
Real Estate

E. C. WINLAND
Comptroller
Management Information Systems

LEONARD ZARZYNSKI
Institutional Food Services

NATIONAL
TEA CO.

HOME OFFICE

1000 N. Crosby Street
Chicago, Illinois 60610

DIVISIONAL OFFICES AND WAREHOUSES

Chicago, Minneapolis, Milwaukee,
Indianapolis, St. Louis,
New Orleans, Davenport,
Denver, Sioux City, Youngstown

TRANSFER AGENTS

The First National Bank of Chicago
Chicago, Illinois

The Chase Manhattan Bank
New York, New York

REGISTRARS

Continental Illinois National Bank
& Trust Company of Chicago
Chicago, Illinois

Chemical Bank
New York, New York

TRANSFER AND PAYING AGENTS

3½% Debentures
Chemical Bank
New York, New York

5% Debentures
Morgan Guaranty Trust Company
New York, New York

NATIONAL
TEA CO.

SUPERMARKETS FOR THE SEVENTIES. One stop shopping convenience, eye-appeal and taste-appeal, plus friendly National Tea store people who are professionals at pleasing the customer—are the hallmarks of National's growth plan for the Seventies. High fashion stores, engineered from the drawing board up to be people-pleasers as well as profit-makers, feature top quality meats from National's own packing plants. Produce Managers like Dave Mooney, a 12-year veteran with National, and Kare Pharmacists like Peter Hedlin, are career men whose whole dedication is to "giving the lady what she wants"—and with the genuine smile of a friend. At National, even the moppet brigade knows that the welcome is for real.